

Issues in Intergovernmental Relations

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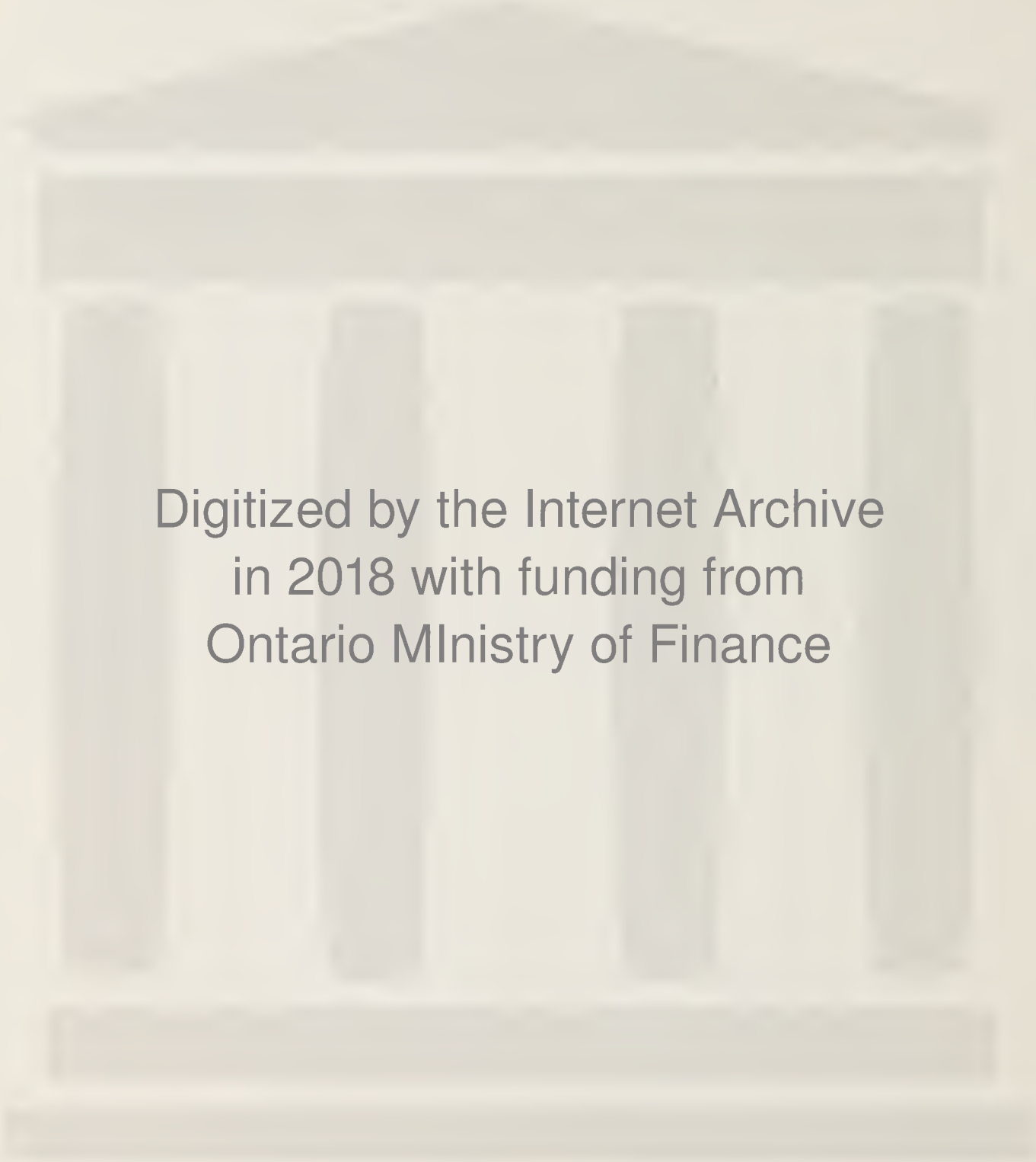
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Introduction

The Ontario Economic Council held an Outlook and Issues Seminar in Kingston in late 1977. One of the main topics discussed at this seminar was Intergovernmental Relations. The discussion was partially based upon the contents of a volume on Intergovernmental Relations issued by the Council in early 1977. In the interest of furthering public discussion in this most important area we are issuing this discussion paper.

The paper contains the text of the keynote speech, which was delivered by Professor Richard Simeon, Director, Institute of Intergovernmental Relations, Queen's University. Also included are the remarks of the discussants, George Speal, Q.C. of Kingston and Donald Stevenson, Senior Assistant Deputy Minister, Ministry of Treasury, Economics and Intergovernmental Affairs, Government of Ontario. The paper concludes with a report of part of the ensuing question-and-answer period and some concluding remarks offered by Dr. R. Watts, Principal, Queen's University.

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INTERGOVERNMENTAL RELATIONS

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What I would like to do is give a very general survey of where we are, how we got here, and what some of the possibilities for the future are. I shall focus on the multiple crises of the federal system itself, posed not only by the possible secession of Quebec and by the grievances of other parts of the country but also by the difficulties in policy-making in such a complex system of shared responsibilities. I shall suggest some of the implications of these developments, and of the possible changes which will emerge, for social policy and for those involved in shaping and operating it.

These are not good times either for the country or for those committed to a view of the expansionist welfare state. The long period of growth since World War II, in which the basic building blocks of the welfare state were put in place, has ended, and political support for further initiatives is going to be hard to come by.

This is partly related to the problems of federalism. The complexities of divided jurisdiction and an imbalance of revenues help explain why Canada developed the welfare state somewhat later than most other advanced countries. When it came, it was largely, though not entirely, through federal initiative and through its expansion into areas of provincial jurisdiction. Such interventions, even if Ottawa wanted to make them, will be much harder in the future.

But this history shows that it was possible to overcome the "complications" of federalism, when the will and consensus existed. The climate has now changed fundamentally, and the welfare state is on the defensive.

This is mainly due to economic decline and stagnation. It is easy to finance generous social policies when the economic pie is rapidly expanding, but much more difficult when it is shrinking.

The preoccupation is now with investment, growth, productivity, trade, and the like, and with it has come a basic ideological opposition to big government, to bureaucracy, and to increased public spending, especially if it is on "unproductive frills". There is also a deep pessimism about the ability of government to deal with social problems and about the need for citizens to restrain their demands, lower their expectations, and so on. Whatever the truth of individual points in this litany, its implications are deeply conservative and provide a hostile climate for new developments. When the emphasis is on "restraint", social programs and those they serve are among the first to suffer.

This has been seen in the various measures to cap or limit spending both in federal-provincial programs like medicare and in purely federal programs like unemployment insurance. We hardly hear any more about a guaranteed annual income; to the extent that governments are talking about new social policies at all, the emphasis is on rationalization and coordination, and any new projects are expected not to involve new spending.

The outlook, then, is gloomy, and not just because of the problems of federalism. But, these problems are what I want to focus on.

Since 15 November 1976, the Canadian federal system has been in crisis. Today, its survival in anything like its present form remains highly doubtful. The country is now engaged in a grand search for "solutions", while in Quebec the government steadily plans for negotiating the province's independence.

Whether it is possible to devise a set of policy or constitutional changes which might reconcile the interests of the diverse communities which make up the Canadian fabric remains most unclear. A great many proposals have been and will be made. In order to assess them, we need a full diagnosis of where we are now and how we got into the present impasse - why there is a crisis in Canadian federalism.

The crisis precipitated by the Quebec election is really not new at all. For many years, deep strains within the federal system have been apparent. Since the early 1960s, successive Quebec governments have sought a more or less radical redefinition of the relationship between Quebec and the rest of Canada. In this sense the PQ represents not so much a drastic departure from the past as a natural extension of developments already in progress. English Canadians were shocked and surprised at the Quebec election results, but they should not have been. The reaction simply reflected our unfortunate tendency to worry about Quebec only when some crisis looms and then to bury our heads in the sand once more. We do not have that luxury any more.

Nor has Quebec been the only source of strain. Other regions too have become increasingly concerned with trends in the federal system and have tried to enlarge their freedom of action to define for themselves basic economic and social strategies. And quite apart from these regional tensions is a series of more practical problems in the relationships between federal and provincial governments which have impaired our collective ability to deal with some of the central difficulties facing Canadian society. Now, in an atmosphere of urgency and escalating political tension, we are called upon to resolve problems which have been building for many years. The record of the immediate past is not encouraging.

Between 1968 and 1971, mainly at the instigation of Quebec, Canada's eleven senior governments undertook a massive review of the constitution. Some progress was made, but the exercise failed because it could not meet the interests of the Quebec government. In 1975 and 1976, the constitutional issue was revived and some progress made, but that was wiped out by the Quebec election. Thus, Canadians have not even been able to agree on a method to amend the constitution, much less on any substantial changes. The frustration of this experience helped the PQ win. The record does not augur well for future discussions, since the options now contemplated go far beyond earlier demands. On the other hand the existing constitution has been a very flexible instrument, permitting all sorts of informal changes; but such processes are unlikely to deal with the issues now before us. Pandora's Box has been opened, and we will be forced to make clear choices.

Fundamentally, Canadians have not been able to agree on constitutional patriation and amendment or on substantive changes because they have not been able to agree on what kind of a country they want. Canada as a country has always been tentative and problematic, balanced between regional tensions and foreign influences, so that our politics has been dominated by the preoccupation with national unity and by questions of institutions and structure. Other problems have been neglected and our ability to find solutions to them hampered.

The basic dynamic of Canadian federalism lies in the tension between what we might call "nation-building" and "province-building". Nation-building attempts to create a Canadian community. It seeks to create a single national economy and society and looks to the federal government as the chief instrument of national development. This of course was the thrust of Confederation itself and of the National Policy of Sir John A. Macdonald. Problems are defined nationally rather than regionally and national solutions sought. In social policy, nation-building has meant redistribution of

wealth from rich to poor regions and the provision of common levels of service to all Canadians wherever they live, either through federal programs such as unemployment insurance or through federal influence on provincial action through shared-cost programs. This view sees the federal government as the natural instrument to pursue national goals, as indeed have most of those who have fought for a more humane welfare state.

Developments during and just after World War II suggested that this nation-centred view had come to prevail. The provinces, some observers suggested, were to become little more than overgrown municipalities, with the real power in Ottawa. After all, had not the depression shown the inability of the provinces to deal with major social and economic problems? And had not the experience of the war fostered development of common feelings of citizenship across the country, together with a broad consensus on the need for more active government. Was not the economy becoming ever more integrated and less regionally divided? And had not the federal government, through its massive wartime expansion, developed a large and competent bureaucracy well equipped to play the dominant role?

Thus, immediately following the war, the federal government proposed a host of changes in jurisdiction and fiscal arrangements which would have fundamentally changed the balance between federal and provincial power, and they found widespread public support.

The provinces, led by Quebec and using their constitutional veto powers, were able to block some of these proposals. Unemployment insurance, family allowances and old age pensions, and other major new federal programs were enacted, but the primary focus came to be, not a massive shift in constitutional power, but rather a piecemeal process in which Ottawa worked with and through the provincial governments in social assistance, hospital insurance, and later medicare.

But the federal government was unable to make its post-war dominance permanent, and gradually the second strand of the Canadian dialectic reasserted itself. That was the impulse for province-building. In this view Canada is not as a single national entity but a collection of regions or provinces in which the identification as Nova Scotians, Albertans, or Manitobans is more important than as Canadians. The focus is the local community. Economic growth, social welfare, and so on are seen in provincial terms, not national standards, and regional particularity is what is important. The natural expression of these interests is through provincial governments.

It is hard to account for this dramatic shift. In part it seems due to failures of the federal government itself. The nation-centred view seemed to many French Canadians to mean in reality nothing more than English Canadian dominance. To Westerners and Maritimers it meant the continuing dominance of central Canada. More generally, federal economic and social policies seemed unable to remove the disparities between rich and poor or to bridge the diverging economic interests of different regions. Federal political institutions also seemed to fail; the parliamentary system was unable to accommodate the interests of all regions. The party system, potentially the most important integrating force, seemed to break down as both major parties were unable to develop strength in all regions, leading to the virtual freezing out of the liberals in the West and of the Conservatives in Quebec. The bureaucracy, technically competent, was often grossly insensitive to regional needs and to the delicacies of federalism.

Accompanying this decline in the strength and legitimacy of the central government was a resurgence of the provincial governments. In part this was because of the renewed importance of the resource industries, which were primarily under provincial control, and in part it was because many of the major new policy areas were also largely provincial responsibilities.

In addition, as provincial governments expanded they developed increasingly competent and aggressive bureaucracies, more and more able and willing to challenge federal dominance and assert their own responsibilities.

The most important example was of course Quebec. In the process of massive modernization that occurred after 1960, Quebecers turned increasingly to the provincial government as the instrument through which French Canadians could achieve their political goals and become their own economic masters. Ottawa was controlled by the English, and so was the economy; hence the provincial government was the chosen vehicle. This meant more freedom of action and more resources, and it brought Quebec into direct conflict with Ottawa. Even federalists in Quebec now see the province as a distinct and separate society with its own goals and needs. Quebec's aspirations provided an impetus to other regions too, especially in the West, where there was an increasing sense of alienation from Ottawa and a growing sense of being a distinct society - not only economically but culturally too - led by increasingly assertive, self-confident provincial governments.

The result is that in Canada today, both impulses are strong. Ottawa - whether in bilingualism or social or economic policy - defines problems nationally and seeks national solutions - with growing interventions in provincial spheres. Until recently these interventions were mainly in social policy and utilized the federal power to spend anywhere it likes. More recently, with the shift to concern with economic issues, federal interventionism has moved towards the detailed regulation of economic life, most dramatically with the anti-inflation program but also in areas like competition policy and consumer-protection, and towards appropriating at least some of the growing resource revenues for the country as a whole. All this has caused conflicts in many new areas. Similarly, the provinces seek not only greater fiscal power and more freedom in their own areas of jurisdiction but also a greater role in

those primarily federal areas - trade policy, communications, transportation, and the like - with particular importance for provincial development.

What we have seen is thus not so much centralization or decentralization as the expansion of both levels of government. One result is that it is difficult to find any field of public policy today in which both levels of government are not deeply involved. Another result is the great growth of joint decision-making in almost every area, with a proliferation of federal-provincial negotiations and hundreds of meetings taking place each year. Often these negotiations are cooperative and harmonious, especially when the relationships are between program professionals at each level. But increasingly the issues in negotiation involve basically different goals, priorities, and development strategies and intense arguments in which each government tries to protect its own territory and maximize its political gains.

PQ leaders often stress that it is their frustration with this process, with its continual confrontations, delays, and arguments, which has led them to opt for independence. The process is just too complex. The shared responsibilities make it impossible for either level of government to plan rationally. Would it not be a lot easier to cut the ties and let each go alone?

Without going that far, of course, Ontario too has argued for disentanglement, an attempt to rationalize federal and provincial responsibilities so that each level is responsible for a clearly defined set of functions, without both being involved everywhere. It is a laudable goal; unfortunately the realities of complex policies and the desire of both levels to act in all areas to promote either the national or the provincial interest make rationalization very difficult.

This sharing of functions and the complex federal-provincial bargaining process which results have consequences not only for the structure of federalism and the character of Canadian politics but also for individual citizens concerned not with constitutional issues but with particular economic, social, or other questions. The complexity and secrecy of the process obscures who is actually responsible for what, and that in turn makes it hard to hold leaders accountable. Groups and citizens may be subject to contradictory or inconsistent policy directives from different levels. Their limited resources are stretched as they try to pay attention to the activities of governments at both national and provincial levels - and of course at the municipal level too. Some groups may be caught in the cross-fire between governments, as for example when the mining industry claimed that the federal-provincial competition for resource revenues left them the victims.

More important, in the long run, the predominance of intergovernmental bargaining as a form of policy-making in Canada has led to a preoccupation with certain kinds of issues and a neglect of others. First, we tend to deal with every issue primarily as a regional or territorial issue; for example, poverty becomes simply a regional disparity, and we neglect other dimensions of the problem. We build our decision-making system around the territorial and regional dimension of politics, not around alternative dimensions such as class relationships.

Second, our decision-makers become preoccupied with questions of structure, with fiscal relations, constitutional change, with who does what, rather than with the concrete problems of what will be done. The institutional interests of the competing governments predominate - all carried out in an arcane language of amendment formulas and tax points whose relevance to the citizen, and to what governments actually do to or for them, is at best unclear. Major changes in the financing of hospital and medical care have recently been made;

but they were discussed as financial and organizational issues, not as substantive questions about the quality and level of medical services. We know little about what, if any, differences these changes will mean for citizens. Similarly, the Canada and Quebec pension plans are discussed in terms of their funding arrangements and how much money will be provided at low interest to the provinces rather than as pensions policy itself. The distribution of government benefits and debate about redistributive policies take place in terms of regions, not social groups.

In the complex federal system, we tend to discuss the problems of the system itself, not how problems are dealt with through it, that is, how the eleven governments together provide public policies. This is due not to the perversity of any leaders but to the structure of the system. With divided responsibilities and intergovernmental competition, it is extraordinarily difficult to deal coherently with major national issues such as economic management, social policy, or foreign ownership or to discover and promote national interest. Groups are fragmented and localized; those with national concerns and a national constituency tend to be disadvantaged. Indeed, it is not clear whether and on what issues Canadians would agree that there is a national interest at all.

These, therefore, are the fundamental problems which any proposals for revamping the federal system must address. First, how to reconcile the tension between province-building and nation-building; how to distinguish the areas in which there is a national interest which should prevail from those where provincial interests should predominate. This tension pervades our whole political system, from individual citizen commitments and loyalties up to the formal mechanisms of government. The second basic question is how we can improve and make more responsive the decision-making processes within federalism itself. Only the first question poses really fundamental problems of national survival and points to the need for major constitutional change. Difficult as the second may be, it has not generated crises and is not the source of basic tension.

What kinds of solutions are being offered? Since 15 November a host of proposals have been made, and there appears to be a widespread willingness to consider more or less radical changes. The status quo has few defenders. Everyone now talks of finding some "third option". That is an important step, but I think the time is fast approaching when we need to spell out various possibilities to make clear the assumptions about community and nation on which they are based, to think through their implications, and to assess their applicability to the different interests and regions in the country.

Most of the options proposed fall into one of four categories:

1. Proposals derived from the nation-building impulse.

Their concern is to maintain or create a new national consensus, to find a new national policy around which Canadians of all regions and languages can unite. They stress the need for common national purposes, and they seek to remake the federal government in such a way that it can better represent Canada's regional diversity within itself and provide a means of discovering and implementing the national interest.

In part this implies certain kinds of policy: the federal bilingualism strategy, for example, which asserts that French Canadians can be at home anywhere in the country, runs directly counter to the view that Quebec must be the state of the French Canadians. Policies concerning foreign ownership and the mass media are also in this category.

More fundamentally, one can discuss a whole range of institutional changes at the federal level to make it more responsive. These include, for example, incorporating regional diversity within parliament itself by making the Senate a truly regional body. The same could be done with the Supreme Court and regulatory agencies. Some have proposed that the electoral system be changed because the present system accentuates the

weak representation of Liberals from the West and Tories from Quebec. All these could radically change our traditional form of cabinet government. This view may even argue for a greater federal role in some areas, for example in education to provide minority language schooling or to promote common curricula and common national feelings.

This strategy, based on a nation-centred view, rejects the drive for provincial autonomy and would clearly be unacceptable to any conceivable Quebec government and to most of the other provinces too. At the same time it might earn considerable public support, especially in Ontario. It is also a very long-term solution, in effect trying to make up for the failures of the past. Such a strategy despite its appeal, may well be too late.

2. Decentralization

By far the most common cry recently has been for more "decentralization" in Canadian federalism. The solutions range from minor, mainly cosmetic, changes, in which some relatively less important powers, such as communications, would be devolved to the provinces while the major economic powers remained in Ottawa to much more drastic changes in which there would be a major transfer of fiscal resources and much greater provincial voice in areas like economic and transportation policy. In more radical proposals Ottawa would provide few direct services to citizens being restricted to a few common services, acting as a redistributor across regions, and policing the Canadian common market. This would be a truly con-federal pattern in which Ottawa exercises only those powers the provinces delegate to it.

"Decentralization" is attractive not only because it seems to respond to many current provincial demands but also because it neatly fits in with the distrust of big government, bureaucracy, and the like mentioned earlier. Any substantial decentralization clearly implies acceptance of the province-centred view.

Assuming that Canada is not a strong national community and cannot become one, it argues that problems should be dealt with at a local level, and that apart from certain guarantees about mobility there need be little concern with common policies and programs across the country. While it does not rule out fairly massive redistribution from the richer to the poorer regions, the general commitment to do so would likely diminish. Similarly, it assumes that a coordinated national attack on such issues as foreign ownership is unlikely.

Some would say that Canada has already moved too far in the direction of decentralization to permit an effective national government. Certainly Canada appears to be the most decentralized of federal countries and has almost uniquely resisted the centralizing trend that has occurred elsewhere. The new fiscal arrangements continue the trend, putting a larger share of tax revenues in provincial hands and effectively removing any real federal voice in health care policy.

Decentralization has many attractions and is almost certain to come in some form, but it also has costs which many Canadians might be unwilling to bear. It is not as simple a matter as many of those now advocating it seem to assume. Nor is a general policy of decentralization in which all provinces are treated in the same way likely to come close to satisfying the aspirations that most Quebec groups, including the federalists, have.

3. Special Status

For Quebec, the fundamental demand is for a political structure which recognizes that it is a distinct society and culture, that the provincial government is the primary instrument of its development, and that at least for some purposes Canadian institutions must recognize the equality of two nations. This provides the basis for the third option, some form of special status for the province. At a minimum this could simply mean

that Quebec should exercise some powers now exercised by Ottawa, and that, as with the Quebec Pension Plan, programs shared jointly between Ottawa and the provinces would be left entirely to the province. More broadly it suggests that Ottawa would cease to operate in Quebec most of the programs it now does. Proposals for special status, indeed, can end up looking very like sovereignty-association. Gerard Bergeron for example, a Laval political scientist, has recently proposed a new "Canadian Commonwealth" in which there would be elected governments for Quebec and for English Canada, together with a reduced federal government, also elected, but with equal representation from each nation. Indeed, there is no vast gulf between independence and the federalist options; it is a continuum with infinite gradations.

The assumption that Quebec is a distinct society is easy to accept; less so is the view that English Canada equally consists of a single nation. While that might have been true once, it seems most unlikely now, as we have seen, and few English-speaking provinces are likely to be willing to delegate their powers back to Ottawa.

4. Differential decentralization.

There have also been fears, most strongly expressed by Prime Minister Trudeau, that special status can only mean a slippery slope of accelerating changes in which all Quebec citizens' ties to Ottawa would be cut and the end result would inevitably be independence. On the other hand some formal recognition of the distinct role of the Quebec government with respect to its population seems essential. Quebec - as indeed in some ways every province - already has special status in some respects. This suggests that we consider some form of differential decentralization allowing much greater variation in both the constitutional and informal relationships between Ottawa and the different provinces. Such a system is hard to envisage and would be difficult to implement. But, messy as it is,

it might come closest to recognizing the complex realities of many cultures, two nations, ten provinces, and the one country that we now have.

This listing of the major alternatives is sobering because it becomes easy to see how each of them would be opposed by some very strong interests and how remote the chance of a consensus coalescing around any one of them. A satisfactory outcome depends on much more than devising new constitutional formulas. It depends equally on economic conditions, on effective policy-making by the federal government, and on a search for areas of common values and agreement.

Furthermore, it may be impossible to find any mutually acceptable new formula within the federal system. The fissures may be too deep to bridge. Quebeckers may opt for independence; English Canadians may decide that they are unwilling to make the changes necessary to persuade Quebec to remain. In that case, we shall be confronted with an even more difficult series of choices in an infinitely more difficult political situation. While I believe we must accept any democratic choice made by Quebec citizens and if separation is chosen should try to ensure the most harmonious future relationships, including economic association if that can be shown not to disadvantage English Canada, I have no illusions about how difficult it would be to maintain such principles in practice. To ponder the difficulties of amicably working out a separation is to realize how strongly we must work to achieve an accommodation within the federal framework, even though such an accommodation, if achieved, might involve pretty drastic change.

Thus my message, I'm afraid, is a pessimistic one. We have to stress the depth of the conflict between the competing images of community now at war in Canada, the profound difficulties of finding an accommodation among them, the heavy penalties if we cannot do so.

This debate will dominate our political life for the indefinite future. It will crowd other issues off the political agenda, and even more will mean that virtually every other issue facing us, including social policy, will be discussed largely in terms of its implications for national unity. Hence, once again, there will probably not be much innovation in the field of social policy.

Moreover, we in Canada are now faced with two kinds of problems more intensely than for many years: on one hand the deep economic malaise, on the other the crisis of national unity. For them to occur simultaneously poses an immense burden on decision-makers. The two problems are related: the economic difficulties compound the alienation in Quebec and elsewhere, while the political uncertainty compounds the economic problem. Yet in a sense what is necessary to deal effectively with one problem runs counter to what is necessary for the other. The economic problem suggests the need for decisive action at the national level to modernize and diversify the Canadian economy; the political crisis almost certainly means the weakening of national authority and, in the longer run, a more decentralized country.

What is at stake is not only competing images of the country, or even the set of institutions we now call Canadian federalism. At stake in the years to come will be the civility and tolerance which makes any country worth living in.

Discussion

G. Speal

I agree with the closing remarks of Richard Simeon. What is at stake are not only competing images of the country or even the set of institutions we now call Canadian federalism. What will be most at stake in the years to come will be the civility and tolerance which makes any country worth living in. We must approach any constitutional debate with the proper zeal and attitude. We have been able collectively to mould a united country, one in which we all share a common pride in calling ourselves Canadian. We must not win the battle only to lose the war. What has been said in the context of federal-provincial relations, once called senior and junior levels of government, but now referred to as "other" levels of government, parallels in many respects the serious debate in the last ten years between the provinces and the municipalities.

I suggest that it would be national folly to commence overhauling our constitutions completely, starting from the beginning with a new document. Our speaker has indicated that we cannot even agree to bring the constitution home. We are unable to agree how to find a formula satisfactory to all the provinces under the federal government or how to amend the constitution. How can we imagine we could agree on what goes into the constitution? Moreover, problems of unemployment, inflation, and the faltering dollar are preoccupying Canadians. They are unlikely to enter a constitutional debate with the dedication and enthusiasm it would need. And yet such a statement of principles must come from and be accepted by the people.

Much of what has been said today, and much of what is happening, concerns the institutions of government. We sometimes forget that governments are elected to represent the people. The theme must I think be one of disentanglement,

the allocation of functions and responsibilities to the level of government best able to provide the service contemplated. I know Professor Simeon has made a very strong point that the debate has been too much about who should do what and not enough on what should be done. I maintain that first we must decide who is to provide the service rather than what service is to be provided. What needs to be done is no more important than which jurisdiction is best able to do it.

The great debate over our constitution and the concern expressed comes from a people heavily burdened by three tiers of government each competing for favour from the same electorate. There is a confusion of powers and responsibilities, an encroachment of each level of government into areas of concern historically performed by other levels. Moreover, the secrecy associated with intergovernmental relations has made the populace indifferent. The people lack an understanding of government because all levels get into the same act, each trying to take credit when service is delivered successfully and blaming the others when a failure occurs.

Reallocating functions will bring clearer lines of responsibility and greater accountability. Governments will also need to communicate with the electorate. I am suggesting not decentralization but disentanglement, a separation of powers and allocation of responsibility along more recognizable lines. There will be fewer conditional grants from all levels of government, an appreciation that each area of the country, in fact each city, town, and village, is unique and may wish to develop along different lines than its neighbour.

The proliferation of shared-cost programs and the existence of overlapping jurisdictions has led to another level of decision-makers. Outside legislatures and councils, options are being discussed and decisions made by groups of people both elected and appointed. These intergovernmental meetings are not open to public scrutiny, further supporting the widespread belief

that government is secretive and creating both apathy and disrespect. Clearer delineation of powers will reduce the number of such intergovernmental groups and restore responsibility to where it belongs, in the legislature.

It would be naive to suggest that all functions can be easily allocated. However, disentangling the more obvious ones would lessen the friction between governments and allow each level to do that which it is best capable of doing and giving to the country the richness of diversity.

Government is for the people. In the power struggle between federal, provincial and municipal levels governments have attempted to be all things to all people. They have said that what is good for the east is good for the west and everything in between. And those who have travelled from east to west know that there is a richness and diversity in our country. Those of you who have travelled in our province know that not all communities need the same thing at the same time. Yet what do we do? We compete for the 50¢ dollar. The Province of Ontario says "don't grow, we need parks in our great country", and so they give you a 50¢ dollar. Everybody grabs for that 50¢ dollar because the legislature in Toronto says we need parks, and we scramble, forgetting our five-year plans, forgetting our priorities. In addition, the provincial government does the same thing insofar as the federal government is concerned. All these strings are attached to conditional grants because somebody at another level of government decided that this region, whether it is the province or the country, needs the same thing at the same time.

There seems to be an argument, certainly in the papers we have read, that in diversity there is weakness, that in giving to the regions, to the cities, to the villages, some autonomy, some power to grow as they want, one is in fact saying that one would be a Kingstonian not an Ontarian. I'm going to be an Ontarian, not a Canadian, because I have more power and can do

my own thing. One does not become a Kingstonian or a non-Canadian just because he has a little more money to spend for housing because he needs housing today rather than parks. One does not become a non-Canadian because a provincial government says it is going to build a sewer at this point rather than a road at that point. If only money holds us together as Canadians, surely some of the richer places, such as Toronto, might as well leave the country and go on its own.

There should be greater mutual respect between all levels of government. Each level of government should stop trying to do all things to all areas and all sections of our country. When we think of what the services are trying to provide, we cannot afford to have all these benefits given to us by our governments. There used to be an old saying that "what we put through our labours in our right pocket was taken by our government out of our left pocket". With inflation, not only are the contents of our right pocket being taken out of our left, but there will be a large I.O.U. for our children in years to come.

Therefore, while I agree with much of what the speaker said, I hope greater responsibility will be given back to the diverse sections of our country and that through diversity will come strength. As to Quebec, I, for one, do not believe it should have a different status from the other provinces.

Discussion

D. Stevenson

It has been difficult for the Ontario government and for Ontarians generally to put together what might be described as an Ontario view on Confederation. I am in the strange position of agreeing with most of the Council's positions, something I have not always done in the past. I also agree with most of what Richard Simeon said and just about all of what George Speal said. That is very awkward because there must be inconsistencies somewhere.

I think there may be an emerging Ontario view on the confederation crisis. I hope so, because it befits the provinces now to make much more of a contribution to the debate, given the current concerns about federal government initiatives. But caution is needed too. Professor Desmond Morton of the Faculty of History of the University of Toronto recently said that "what unites us in Canada is a range of limited Canadas viewed by people from various regions of the country — except for Ontarians who with an enraging arrogance always assume that they can speak for all of Canada". We have had a General Motors syndrome in Ontario. Many Ontarians assume that what is good for Ontario is good for the country, and vice versa, a view most emphatically not held elsewhere. This was brought home to me recently at the two conferences put on by rival universities in Toronto, "Destiny Canada" at York University and "Options Canada" at the University of Toronto. At York, on one of the panels, representatives from each of the regions of Canada were invited to speak about their regional points of view. We did very well when it came to the Atlantic provinces, Quebec, and the West. But for Ontario we had Barbara Frum, and she spoke about the CBC. Last week Darcy McKeough was asked to speak about an Ontario view on confederation on a panel of ministers representing each of the regions. The others spoke, as one

might have predicted, about the particular grievances and aspirations of their region; but when it came his turn Mr. McKeough spoke about Canada.

All this goes to show that Ontarians have not got the regional identity felt by most other Canadians. However, at least one contribution has been made to the debate by Ontario as Richard Simeon and George Speal mentioned — the concept of disentanglement — which Ontario has been pushing in federal-provincial conferences for two or three years. It is a particularly constructive point during this time of general fiscal constraint and lack of credibility in governments.

Let me return for a moment to the two conferences referred to above as well as a third one, a conference in Montreal on "The Confederation Debate in the Media" sponsored by the Canadian Daily Newspaper Publishers Association, an 'informed observers', conference. What amazed me about these three was the sense that a consensus seemed to be developing on certain issues. First, we are a country of distinct regions, not strictly a dualist country of Quebec and a homogeneous English Canada, a point-of-view that many Quebec nationalists have been building into their approach to Canada. Second, the federal government in Ottawa as well as central Canada and Toronto in particular, have lost legitimacy in the rest of the country. Third, as a result this puts much onus on the provinces in the confederation debate. As the Ontario Economic Council recommends in its report, we need more net decentralization in a revised federal system. Finally, and this is the point Richard Simeon made, the status quo is no longer acceptable to the majority of the Canadians, and a third option needs to be developed.

Last week in parliament Prime Minister Trudeau made a long contribution to the confederation debate. He warned against saying that we stand for the status quo. While the current federal system is not exactly the status quo, because accommodations are being made constantly, psychologically there is a

necessity at this time for some specific proposals, for changes that go beyond the simple "business as usual" increments. This is shown by increased public participation in the whole debate in the last few months. There must be some public involvement in the determination of our future. Politicians and civil servants are not trusted by the public to try to deal with this completely by themselves.

From these conferences one did get the feeling that alterations could include some of the following points:

1. a net decentralization to the regions or provinces,
2. some kind of built-in guarantee for certain fundamental rights including language rights,
3. additional direct provincial/regional involvement in some of the organizations of the central government, though not necessarily along the lines that Richard Simeon mentioned,
4. A distribution of powers that much more clearly restricts the federal government to what is clearly national in such areas as foreign policy, defence, regional income redistribution, a maintenance of the common economic market, and some of those powers that are required for improvement of our economic stance in the world, leaving to the provinces what is purely local. This may mean that a number of powers, chiefly those in the social and cultural areas, might well be decentralized at the choice of the individual provinces. In areas of concurrent powers, such as we have now in areas like immigration and agriculture, the provinces in a number of fields would have paramount powers to exercise if they so wish. This could allow for the kind of de facto special status, but not just for Quebec, that Richard Simeon was suggesting. Whenever Quebec has been faced with a choice, it has in the past always opted for the

maximum amount of decentralization, but that would not mean Prince Edward Island and Ontario would wish to take the exact same set of responsibilities, because obviously they do not want or need such powers.

There is currently a debate regarding pensions. When the regulation of private pension plans was clearly set out by the court system as a matter of provincial responsibility, Ontario established a pension commission, hired actuaries and set up a working system. A small province with only a few pension plans would not want or need this responsibility. Flexibility gives us the chance to develop some interesting arrangements, the federal government performing functions on behalf of smaller provinces, or even interprovincial arrangements doing so. It also implies that taxing powers and revenue capacity should be distributed according to expenditure responsibility. But again, the consensus of these discussions seemed to be that the federal government must have enough economic power to keep us in a healthy and competitive economic situation.

In short, I agree with Richard Simeon's analysis but emphasize that in our restructuring we should be involved in both nation-building, as he states it, and province-building at the same time. In answer to George Speal's concern about the difficulties of getting agreement on constitutional changes, it is amazing how many of the above suggestions can be accomplished without formal constitutional change.

I also agree with the main thrust of the Ontario Economic Council's recommendations both in the federal/provincial and the provincial/municipal areas. However, let me comment on some of the specifics in the Council report. First, on language rights, the report spells out as a priority the teaching of a second language much more effectively than we have to date. I agree with that. But we still must put priority on ensuring rights for our official language minorities; the francophone

communities in Ontario, anglophone communities in Quebec. Our second priority must be on a second language for others.

On equalization, which the Council recognizes as an important principle in confederation, I was pleased to see reference to the possibility of provincial contributions to an equalization fund. I think this could be a very healthy addition to our federal/provincial fiscal system. If the "have" provinces contributed directly to a fund, there would not arise a situation such as we had three or four years ago when the price of oil went up and the federal government, by virtue of the automatic formula, had to pay out to the "have-not" provinces, the equivalent of much of Alberta's increased revenue from the increased price of oil. The federal government then proposed a change to the equalization system which limited its liability, but which compromised the principle of full equalization.

The Council also stresses the need for a common market which has a number of implications for a national policy. I shall return briefly to that.

I agree with the principles stated on provincial/municipal relations. George Speal mentioned the desirability of taking the strings off provincial/municipal grants. I am currently chairing a committee on the provincial/municipal grant structure, and our aim is to remove as many conditions as possible. We have encountered some problems with the ministries who control those strings, because they have some vested interest in keeping them, but we shall see soon how successful they have been.

For a long time I have been in basic agreement with the idea of a renewed federalism that better reflects our regional diversity. I agree with the Council's admonition that in our concern about federal/provincial relations generally we

should not forget the municipalities. I had something to do with the establishment of the Ministry of Treasury, Economics and Intergovernmental Affairs (TEIA) in Ontario, the only one in Canada that combines responsibility for federal/provincial and provincial/municipal relations in the same body. I thought our original aim in intergovernmental affairs should be "do unto the municipalities as we would have the federal government do unto us". That is a bit oversimplified, but there are many parallels between the two structures that we can use to our benefit.

The Council report recommends that at the very least Canada must have a common market and that attempts be made to eliminate barriers to the free flow of goods, labour, and capital between provinces. That is fine, but simplistic. It is standard economic theory that unless marketing boards are restrained our economy is made less efficient. But consider, say, what farm organizations think of unrestrained competition. If we do place a value on the family farm and a stable agriculture sector, perhaps some mechanism is needed, marketing boards or a replacement, to cushion the inherent boom-and-bust cycle that might result.

The government has taken seriously the concern of the Council and others about the dangers of an ever-expanding public sector. The current concern about the size of government and the financial squeeze on all levels of government may have beneficial results. The disentanglement we have been urging is now beginning to take place voluntarily as governments try to get out of some expensive programs that they think they can pass over to another government. There is an emerging recognition, too, that shared-cost programs, both federal/provincial and provincial/municipal, have been major causes of rising government expenditures and an increasing lack of accountability. Thus there may be hope that further steps by both the federal government and the provinces will remove the strings on grants while perhaps retaining over-all constraints on the size of the transfers. In the process we might get more accountability and credibility back into the system.

General Discussion

Question: You refer to costs associated with decentralization. Can you elaborate your point of view as to the costs associated with decentralization?

R. Simeon: I think it's fundamentally a matter of how one feels about the community. And it also comes down to a crunch on certain issues. Obviously you can have decentralization in a great many areas, and in some ways I'd like to see decentralization much below the provincial level. Decentralization well down to towns and villages and neighbourhood factories and so on. Yet for example with natural resource revenue there are clear implications between saying we must keep the benefits of our oils when 'we' is the community of, in this case, Alberta or when it is all of Canada. I think there are dangers in saying that the 'we' will always be a smaller one, that decentralization will tend to be in that direction.

Question: I'm inclined to think that some of the realities of Canada are basically municipal rather than federal simply because we are a conglomerate of municipal communities strung out along the 49th parallel. We have characteristics of Canada, a series of municipal governments capable, in size, of acting as countergovernments to the provincial governments. We cite Toronto and Winnipeg as examples. I think our system doesn't take sufficient account of the municipal reality. Mr. Simeon was speaking about people from Alberta, from Saskatchewan, from Manitoba, and from Ontario as sharing ideas simply because they live under the same middle class urban conditions no matter in what region. Shouldn't we be thinking about giving a little more responsibility to the municipalities and recognizing their fact in the Canadian situation rather than the myths we have about provincial realities and federal ones?

G. Speal: I would not raise the point that Toronto and Montreal have more money than certain provinces in confederation. I would not say ask what right should Toronto and Montreal have to speak

with Prince Edward Island. I would not bring this up, but of course others may. That's exactly what's being said by others.

Let's take immigration. It's fine to say "Open the door and let 200,000 people in here because we need them". We need them for manufacturing, we need them for purchasing baby clothes, or whatever. But these people then come into the city and all of a sudden the city must provide the homes, the roads, the hospitals, and the services for them. We're not talking just about statistics now, we're talking about human beings; we're talking about you and I. I'm glad they are opening this flood gate because my parents immigrated too. However, if you let them in and then forget about them they get lost, lost in Toronto or some other place.

Question: Mr. Chairman, I am wondering if this decentralization won't mean that the rich get richer and poor get poorer, particularly with regard to health services, schooling, and things of this kind unless there is massive equalization pay?

R. Simeon: The question is whether you could maintain the kind of commitment to equalization that we have at the moment. There is, first of all, inter-regional equalization. I mentioned before the question why it is that we in Ontario are reasonably happy to provide money to New Brunswick. It's because we consider New Brunswick part of the same community. For this reason we think of them differently than we think of the people in Tanzania. Again, there is a question how long that kind of commitment can persist, again depending on how far one went in the direction of that sort of strategy. The other sort of element of redistribution, which I'm not quite sure how to analyse but I think does pose a real problem here, is that it is not quite fashionable to like the welfare state these days. However, if one looks at the whole growth of the kind of policies developed with respect to welfare state, such as family allowances and unemployment insurance, many of them were originally pioneered by the provinces but all of them

require federal involvement. It would be very interesting to ask the question whether, if it were not for the use of the federal spending power, for the federal government believing it was in the national interest to have medicare, we would have had it. If the constitutional restriction were imposed that medicare was an absolute provincial responsibility what would be the result? Probably some provinces would have medicare and some would not. The system would vary, but not only on the basis of where medicare was in each province's list of priorities. It would have been based on a lot of other things having nothing to do with provincial resources. Certainly we got the welfare state through federal intrusions.

D. Stevenson: Could I add just a little comment on that? Even among those who have been most strongly urging decentralization, there is a real recognition that just about the top priority power for a federal government, even in a greatly decentralized state, would be the matter of income and regional redistribution. It may well be that much more of our income redistribution over the next few years will take place through the tax system rather than through the initiation of new direct spending programs, and this is something that perhaps can and should be operated from a central tax collection mechanism. It can be done even without a massive proportion of the total tax revenue. Through provincial contributions to an equalization fund, a heavy level of equalization to poorer provinces could be kept up even with the federal government having a lower share of total taxes. We could also redistribute income to people through the income tax mechanism, again without a heavy share. People in the Atlantic provinces, while recognizing the goodwill and the reasons behind a lot of the DREE programs, have also felt a tremendous resentment about the number of experts who have been coming down from Ottawa and taking over what are essentially local and regional programs in order to build up infrastructure. "We're losing our own self-respect", they say. "Give us a little more independence and perhaps some money to exercise it and we'll react and be much more creative than having you do it for us."

Comments

R. Watts

I found the points made by all three panelists very interesting. I thought I might briefly add one or two comments derived from my own experience in other federations that might relate to what the panelists have said. I was particularly struck by George Speal's comments in urging us to be cautious about trying to adopt a new constitution; and yet very soon afterwards he was telling us about how disgusted people were about the way things are being done now. It seems to me that the paradox typified by those two comments suggests the dangerous situation we have got ourselves into. Certainly it is quite clear in the history of many other federations that a most critical period arises when there is common agreement that the current constitution will not do and yet there is no agreement about what will replace it. I think that is the dangerous and tricky situation we find ourselves in as a country now. This leads me to some of the points Richard Simeon made. I strongly support his emphasis upon the importance of the two activities, country-building and province-building. Too often the debate has become "one at the expense of the other" or in the language of games theory it has been seen in terms of zero-sum games in which one side wins only at the cost of the other side's losing. Instead it is time we thought of this, again in the language of games theory, as a positive-sum game in which both sides gain from the appropriate relationship being worked out between them. It seems to me that the notion of disentanglement plus strengthening the legitimacy of the federal government is the only way we can move. We do have to reduce some of the complexity that makes intergovernmental relations so difficult for the citizen to understand. And at least in some areas we have to increase the measure of decentralization.

At the same time there is a great need, an even more pressing need, to make central government in Canada something that looks more legitimate in the eyes of Canadian citizens. This may be through reform of the Senate. Indeed I was rather interested in Richard Simeon's proposals about that, having written some six years ago for the Ontario Advisory Committee on Confederation similar recommendations, I think there is a lot to be said for it. Nevertheless, we should avoid thinking solely in terms of static structures, of what powers go to one level of government or another, of what structure we create in Ottawa to better represent the regional points-of-view within the country in central policy-making, but consider as well the dynamics of the process. I think a review could be made of second chambers elsewhere, such as the one in West Germany at the present time which was intended to improve on all earlier models and very closely parallels the one Professor Simeon outlined, or the one in Switzerland. What is significant about them is the way in which they channel regional outlooks into central policy-making and the way in which they channel central policy-making into a direct concern for regional outlooks. I think it is this sort of dynamic relationship that has to be examined and learned from. And so I hope that the deliberations of both our provincial governments and the federal government will look at proposals from this dynamic point of view. Here I would like to agree with Don Stevenson. A great deal can be done without having to go through the difficult formalities of constitutional amendment, simply by adapting the processes open to us under the existing framework.

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